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II. ECONOMIC EFFECTS

A. Effects on the Internal Economy of China

There is very little evidence of the Korean war's effect on the Chinese economy. The balance of evidence as of the first of April 1951 indicates that effects which can definitely be isolated have been small.

Communist China at the beginning of the Korean war had embarked on a program of reorganizing the resources of the country (a) to complete the consolidation of power in the China area and (b) to restore the productive capacity of industries considered important in Communist planning. These programs by June 1950 already involved a large standing army, the mobilization of a large proportion of the labor force on government projects, and a heavy tax burden on both rural and urban sectors of the economy. These government activities were apparently being continued in the first quarter of 1950.

In June 1950 Communist China was(already) in a state of limited war. Its ports were partially blockaded by Nationalist forces and its armies were preparing -- at least ostensibly -- for the invasion of Taiwan, and were engaged in "liberating" Tibet. A limited embargo on trade with the West was in effect. At the same time, world economic conditions were becoming tighter due to increased East-West tension. Many prices in world markets -- in Hongkong in particular -- had begun to rise before the Korean conflict began. It therefore seems that many of the changes in the economy of China during the past ten months have in part been trends predictable before the Korean conflict.

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During the period from June 1950 to April 1951, domestic prices in general, even in Antung and Kirin -- cities very close to the Korean border -- have shown only gradual rises. Kaoliang in Harbin rose by about 10 percent in the period from October to April, but bean oil in Antung and all other Manchurian cities fell. By way of comparison, in Taiwan wholesale prices have risen 25 percent since October. Manchurian and Chinese prices were stable during the period that the exchange rate between Manchurian and Chinese Yuan remained constant since the summer of 1950. The two currencies were unified at this ratio (10 to 1) in April 1951.

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Most prices in Shanghai, which are available in detail, do not show tremendous rises. Cost of living items (grains, coal, bean oil, sugar, and cotton cloth) fell during the period from July to December but rose by about 10 percent during the first quarter of 1951. Consumer necessities had not reached peak 1950 prices by the end of March 1951. Sugar imported from Taiwan fell in price during the first quarter of the year.

The effect of the blockade, US trade restrictions, and generally rising world prices was to be seen in the prices of goods imported to China. Carbon black in Shanghai rose steadily in 1950 so that by March 1951 it cost the producer of rubber goods 10 times as much as it had in December 1949. Raw cotton, caustic soda, most chemicals and pharmaceuticals, and most machinery rose in a similar but less rapid fashion. However, the prices of certain commodities such as dyes, raw rubber, electric supplies, some chemicals, and copper tubing, apparently stopped rising and some, including sulfur black and glycerin, actually fell in price during the first quarter of 1951. These

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drops in price were probably due to the greatly increased imports of these items during the last quarter of 1950. While the rises in prices reflected increases in import cost as much as actual shortages, prices of these commodities in Shanghai did not rise as rapidly as those in Hongkong.

Prices of Certain Items in the Shanghai Market
(\$ thousands)

	Dec 31 1949	Mar 31 1950	Jun 19 1950	Sept 30 1950	Dec 30 1950	Mar 31 1951
US dollar notes	18.5	39.9	35.2	29.5	26.3	20.8
Silver dollar coin	4.0	4.0	8.0	8.0	10.0	12.5
Parity deposit unit	3.0	6.1	5.2	4.9	5.0	5.0
Rice (172 lbs.)	230.0	270.0	230.0	210.0	213.0	194.0
Soy beans (50 kg.)	n.a.	158.0	125.0	115.0	115.0	104.0
Sugar (50 kg.)	370.0	367.0	430.0	900.0	770.0	570.0
Raw cotton (36.5 kg.)	115.0	170.0	183.5	183.5	200.0	214.0
Copper tube (kg.)	12.0	17.0	30.0	52.0	60.0	60.0
Caustic soda (30 kg.)	160.0	120.0	132.0	240.0	275.0	375.0
Carbon black (1.875 lb)	17.5	28.0	27.0	72.0	90.0	160.0
Sulfur black	3.2	3.0	3.7	5.9	6.5	5.8
Bicycle tire and tube	84.0	160.0	154.0	254.0	234.0	256.0
Raw rubber (kg.)	8.6	12.0	28.5	44.5	56.0	42.5
Canadian newsprint (ream)	142.0	205.0	275.0	285.0	n.a.	410.0

In general, the terms of trade turned further against China as the Korean war advanced. In Hongkong by March 1950 prices of imports such as cotton and rubber had doubled. Caustic soda trebled and iron and steel increased to nearly five times their prices at the beginning of the Korean war, while tung oil, a major Chinese export, rose only 60 percent above its price in June 1950 in the Hongkong market. Much of this increase had started before the outbreak of hostilities.

These tremendous price rises intensified the effects of the war on foreign trade. Both the value and the quantity of China's foreign trade increased tremendously

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increased tremendously during the latter half of 1950. In particular imports of cotton surged upward during the third quarter and rubber, chemicals, and iron and steel products throughout the second half. However, subsequent to the imposition of stringent controls by the United States and other countries, including Hongkong, in the winter of 1950 the quantity of imports to China declined. Hongkong's trade with China, in value terms, increased steadily through November, dropped slightly in December, reached record heights in January, but has apparently declined since then. Failing suitable price indices it is impossible to convert this trade to a "real" base, but it appears that in actuality the volume of Hongkong's exports to Communist China, in December was not much more than in that of June. All subsequent rises have been more than counterbalanced by precipitous price increases, particularly in goods formerly supplied by the US.

During 1950 China spent approximately US \$500 million on imports to the non-Soviet world and received over US \$400 as export receipts. Imports comprised mainly 400,000 bales of cotton, over 75,000 tons of raw rubber, and 300,000 tons of iron and steel. The few quantitative data available for 1951 indicate a fairly sharp decline in the first months of the year. Cotton shipments for 1951-52 have not yet begun, rubber exports from Malaya are now controlled, and controls in iron and steel have forced prices up rapidly. However, with the exception of petroleum and military end-use items, the Chinese Communists continued to have access to foreign sources of supply.

On the domestic side there was little negative effect on output of either industry or agriculture. Industrial output increased rapidly during 1950 and appears to have reached practicable capacity in certain industries by

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the end of the year. However, goals for 1951 indicate only moderate increases in both industry and agriculture are expected this year.

The major change in these sectors of the economy was the diversion of increasing amounts of the output to government ends. Thus textile, rubber, and paper mills were producing under government contract for the army and the propaganda programs. There are constant reports of increasing rural taxation in Communist China, but continuing reports of economy drives indicate that revenues were not adequate for Chinese Communist Party plans. Cooperatives, conferences of industry, and state trading firms kept firm control over that part of the economy meeting non-government needs.

The Korean war seems to have had little effect on the over-all food situation in China. While the Communists were not able to eliminate famine, and a second grain levy proved necessary in Manchuria, the shortage was sufficiently under control that the Communists exported Manchurian foodstuffs abroad. Presumably such exports could not have been made unless minimum Chinese Communist troops requirements had been met.

The manpower pool from which both war and reconstruction effort must be drawn is in actuality quite small, because of the inadequacy of the transportation network in China. Some areas of Manchuria and North China have been stripped of male population by both Nationalist and Communist recruiting -- one report suggests that in a restricted area of North China there are ten women of working age for every male. In Manchuria there has been a seasonal labor shortage met by migration from North China since the early twenties. In part to meet this shortage and to meet the demands for transport workers the Communist government has intensified propaganda efforts to get women into the fields, and has had to use regular troops to supplement harvest labor. There

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is little evidence that voluntary migration to Manchuria has been encouraged, and conscript labor reportedly is working on large scale construction where the workers can be closely supervised. Women in both Manchuria and North China have by tradition worked in the fields. The chronic shortage of skilled workers and technicians has in part been met by the importation of Russian technicians and by an intensified training program. The Korean war has probably reduced this supply only by slight amounts.

Transportation proved the major bottleneck affected by the Korean war. Considerable resources were expanded to increase the capacity and coverage of the inadequate rail network, and the highway program stressed military needs. Military airfields in many areas were under construction. The main shortages were transportation equipment, fuels and lubricants, rather than tracks, roads, and canals. South-to-North movements on the railroads caused temporary tie-ups in railroad traffic during the spring of 1950 and, reportedly, a shortage of railroad cars in South China. Automotive equipment has been converted to charcoal, shipping has been converted from fuel oil to coal and shortages of lubricants have been reported in the railroads. The requirements for transport, labor, and carts in Manchuria, would -- if continued into the spring and summer of 1951 -- reduce the amount of labor available for Manchurian agriculture, and consequently the crops of 1951.

Since no budget figures have been released for 1951 and since there was little evidence on the amount of resources used for reconstruction by the government in the past it is impossible to evaluate the effects of the Korean war on economic development. It seems also certain, however, that most rehabilitation work, except in those fields such as dyke construction, and the building of

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building of airfields and roads -- which require only the investment of labor -- has been brought to a slowdown approaching a halt. Further rehabilitation of Manchurian and Chinese industry probably requires the importation of power generating facilities and machinery to replace the modern equipment removed or destroyed immediately following V-J Day. The cities of China proper have already felt the need for this electric power. Exports of this type of goods is already controlled in most areas of the West.

It is difficult to predict the future of any economy as firmly under the arbitrary control of the government as that of China. If present trends continue and hostilities of present magnitude also continue, it is probable that there will be a gradual rise in prices of all industrial goods caused by the sharply increasing price of imports. As a consequence the mobilization of rural surpluses will become more difficult, and tax will increasingly replace trade as a source of urban agricultural supplies. Because of present stocks of raw materials believed to exist, and because of the expected increases in output of certain materials -- particularly raw cotton -- industrial output as a whole is not likely to be greatly reduced in the next few months, although some industries may face shortages of chemicals, industrial lubricants, and replacement parts. Agricultural output, on the other hand, will probably increase because of the extensive repair and construction of irrigation and flood control works.

B. Russian Economic Aid

There is no evidence of the extent of change in Russian economic aid since the beginning of the Korean war.

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